

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF GENERAL)
TELEPHONE COMPANY OF THE SOUTH) CASE NO. 9678

O R D E R

IT IS ORDERED that General Telephone Company of the South ("GenTel") shall file an original and 12 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company, total Kentucky and jurisdictional operations on an independent basis with each specifically identified. The information requested herein is due no later than January 12, 1987. If the information cannot be provided by this date, you should submit a

motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

Information Request No. 3

1. In response to interrogatories from the Consumer Protection Division in the Office of the Attorney General ("AG") and the Commission staff, GenTel has made several revisions and corrections to the initial filing and testimony in this case.

a. Provide updated exhibits and schedules showing the results of all revisions and corrections to the original filing.

b. Include a description of all changes and include references to the appropriate data responses in which revisions and/or corrections were made.

2. Nordman Schedules 1 and 2, Item No. 16, page 12 of 52, of the response to the Commission's initial data request and Item No. 1(c) of the response to the Commission's second data request provide conflicting figures concerning the adjustment to Miscellaneous Revenues.

a. Provide schedules resolving these conflicts and providing the correct figures.

b. Provide descriptions of all adjustments to Miscellaneous Revenues.

3. Concerning the Miscellaneous Revenues attributable to the IX lease:

a. Explain why the going level of \$8,829,901 (Item No. 16, page 12 of 52, of the response to the Commission's initial

data request) was reduced to \$4,261,696 per Item No. 1(c) of GenTel's response to the Commission's second data request.

b. GenTel states that the \$4,261,696 was provided by the business relations department. Explain how the business relations department arrived at this figure.

4. Per Item No. 22 of GenTel's response to the Commission's second data request, Kentucky's allocated portion of general office expenses increased \$8,108,045. On page 1 of 2, Item No. 22 of GenTel's response to the Commission's second data request, GenTel states,

General office expense continued to be allocated to the original seven companies on the basis of NARUC factors;...Currently an interim method employing surveys and questionnaires is being used to allocate costs to Kentucky.

GenTel further states,

Because the NARUC method allocates expenses based on the relative size of an operating division with respect [to] total company, the Kentucky division will see an increase in its allocated expense.

a. Explain why Kentucky's portion of expenses will increase when apparently the allocated portion for other states has decreased.

b. Are expenses being allocated to Kentucky using a methodology other than NARUC's? If so, why should Kentucky be treated differently than other states?

c. If Kentucky's allocation is based on NARUC factors that base allocation on a division's size with respect to total

company size, why should Kentucky's allocation increase significantly when Kentucky's service area has not increased from the previous year?

d. Is the increase a direct result of Kentucky's merger with General Telephone of the Southeast?

5. Provide the total of all costs attributable to the Lexington office that were allocated to Kentucky.

6. Provide the total of all costs attributable to the Lexington office that were allocated to West Virginia.

7. Provide the total costs attributable to the Durham offices with schedules for each of the eight states that comprise GenTel, showing the total costs allocated to each of these states.

8. Per Item No. 12(b), page 5 of 9, of GenTel's response to the Commission's second data request, expense Account No. M60 increased by \$3,786,478 due to reclassification of M&C drop charges and a change to 100 percent expensing of service orders.

Explain the previous method used for expensing service orders and why GenTel decided to change methods.

9. Item No. 16, page 15 of 52, of GenTel's response to the Commission's initial data request provides information concerning GenTel's proposed wage adjustment.

a. Provide the proposed percentage increase in wages for both union and non-union personnel for the 12-month period subsequent to the test period.

b. With regard to wage increases given during the test period, it would appear that the increases given union employees more closely matched economic conditions and national trends;

however, the increases given non-union, i.e., management, appear to be above these trends.

(1) How does GenTel justify wage increases that are excessive in light of the current economic conditions?

(2) Provide a schedule showing the amount of reduction to wages had non-union employees only received wage adjustment equivalent to union employees.

(3) Provide a schedule showing percentages and amounts of increases given employees during and subsequent to the test period as a result of new wage contract benefit packages.

10. With reference to Item Nos. 65 and 66 of GenTel's response to the Commission's second data request, GenTel provided amounts of access revenues during the test period.

a. Please provide a further analysis of these schedules identifying the levels of the individual components, switched access, billing and collection, etc.

b. Please reconcile these levels with the levels of the same components included in the total of \$19.99 million as reflected in the May 31, 1985, Order of the Commission in Case No. 8838, An Investigation of Toll and Access Charge Pricing and Toll Settlement Agreements for Telephone Utilities Pursuant to Changes to be Effective January 1, 1984.

11. In its application, GenTel provided an adjustment for the detariffing of inside wire. Simultaneously, the Commission has been conducting its own investigation into detariffing of inside wire effective January 1, 1987, in Administrative Case No. 305, Detariffing the Installation and Maintenance of Inside Wire.

On December 24, 1986, the Commission issued its Final Order in that case requiring further analysis and responses.

a. Please provide the effects this Order has upon the application.

b. In the event decisions in Administrative Case No. 305 may prove to be inconsistent with GenTel's application or are incomplete when the Order is released in this case, would GenTel be amenable to a deferral of all or part of the decision in inside wire or its implementation in this case subject to further review and possible reconsideration at a later date?

12. In its application, GenTel provided an adjustment for income taxes. Simultaneously the Commission has been conducting its own investigation into the implication of the new tax law effective January 1, 1987. The Commission issued an Order in Case No. 9800, The Effects of the Federal Tax Reform Act of 1986 on the Rates of General Telephone Company of the South, on December 11, 1986, requiring further analysis and responses.

a. Provide the additional effects that the Order in Case No. 9800 will have upon this rate application.

b. In the event that decisions in Case No. 9800 may prove to be inconsistent with the application in this case or incomplete at the date the Final Order is released in this case, would GenTel be amenable to a deferral of all or part of the decision on the income tax case or its implementation in this case subject to further review and possible reconciliation at a later date?

13. Provide the entire monthly amortization schedule for the USoA #232- "Station Connections, Inside Wiring" from the beginning of the amortization period in October 1981 to its completion in September 1994. Each phase should be identified and shown separately. Show the monthly balances of the plant account and the reserve account for the entire period. All changes to these balances should be disaggregated by amount and source (i.e. amortization expenses, retirements, additions, sales retirements, salvages). It is expected that amortization expense can be derived by taking the net book cost (plant account balance-reserve account balance) and dividing by the number of months remaining in the 10-year amortization period, as instructed in the FCC's Rules and Regulations Part 31.232. If this is not possible from the information provided, please supply enough information so it is possible to verify the accuracy of booked amortization expense. Provide a cross reference from these account balances to the ones provided in response to Item 14 of the Commission's September 26, 1986, Order.

14. Assuming that GenTel's accounts C451 & X451 contain the majority of the amounts corresponding to USoA #232- "Station Connections, Inside Wiring", it does not appear that any significant retirements due to sales have occurred. Since net book costs that have been recovered by sales should not be recovered again by amortization, please provide an explanation on how previous sales have reduced amortization expense. Identify these reductions.

15. For the following questions, please reference the response to Item 30 of the Commission's November 14, 1986, Order.

a. The response, in part, states "Any salvage (market value - book value) will be credited to the inside wire reserve accounts." Part 31.01-3(cc) of the FCC's Rules and Regulations defines "Salvage Value" as the amount received for property retired. Please reconcile these two definitions. For instance, how is market value determined? If it is equivalent to sales price, or "the amount received" why is the reduction of this amount by "book value" appropriate?

b. The response appears to indicate that the question was misinterpreted, specifically the statement "All sales of deregulated equipment would be a below the line transaction and would have no bearing on the regulated books." It would appear probable that the following situations have occurred:

- 1) Sales of embedded CPE along with the embedded, complex wire.
- 2) Sales of new CPE with reuse of the embedded, complex wire.

In both situations, the embedded wire investment should be removed from the regulated books and should not be recovered by the amortization process. Presumably, this is done by allocating a portion of the sale price, less transaction costs, to the inside wire reserve account. Therefore, please describe the procedures used to make this allocation, identify the amounts, and identify the accounts to which these amounts were booked.

16. Provide a disaggregation by account numbers of the test year depreciation expense of \$38,798,656.

17. Please explain why account #842 shows amortization expense of \$72,157 in response to Item 32 of the Commission's November 14, Order, but is listed as \$4,060 in Item 33.

18. A rough calculation of end of period depreciation expense appears to indicate that about \$1.3 million has been omitted from GenTel's claimed expense, possibly from Accounts 821, 831 and 841. Were these expenses included in Nordman's Schedules?

19. With reference to General's response to the staff's first data request, item 18(b), page 2 of 3, "Analysis of Operating Expenses Showing Percent Increase":

a. Please provide a detailed explanation for the percentage increase from 1985 to the test year for accounts 602.2, 602.3, 602.4, 607 and 612.

b. Please provide a monthly breakdown for the test year for all maintenance accounts.

c. In General's December 12, 1986, response, item 36, it was stated that CO maintenance savings due to modernization have been reflected in the pro forma test year. Explain why account 604 has not decreased proportionally with those savings estimated in item 36. Also, provide an analysis of expense account 604 including identification of subaccounts, description of types of activities involved, amounts booked, and other supportive information for the period 1981 through the test year.

20. In Nordman Schedule 1, line 14, column d, an amount of \$8,341,472 is totaled without showing the itemization of the associated operating expenses; please provide the figures.

Done at Frankfort, Kentucky this 24th day of December, 1986.

PUBLIC SERVICE COMMISSION


For The Commission

ATTEST:

Executive Director